

**Higher Education and Employment Advancement Committee
Connecticut Legislature**

**Testimony of Jamie P. Merisotis, President and Chief Executive Officer
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Lumina Foundation for Education, an Indianapolis-based private foundation, strives to help people achieve their potential by expanding access to and success in education beyond high school. Through grants for research, innovation, communication and evaluation, as well as policy education and leadership development, Lumina Foundation addresses issues that affect access and educational attainment among all students, particularly underserved student groups such as minorities, first-generation college-goers, students from low-income families and working adults. The Foundation bases its mission on the belief that postsecondary education remains one of the most beneficial investments that individuals can make in themselves and that a society can make in its people. With a firm belief the economy demands a better-educated nation, Lumina Foundation is aiming toward a goal of 60 percent of the U.S. population having high-quality two- or four-year degrees or credentials by 2025. This globally competitive level of degree attainment represents about 16 million more graduates than the United States is on track to educate.

As the leader of the nation's largest private foundation dedicated to raising college attainment, I was invited to discuss higher education's role in helping us respond to the deepening economic crisis and build the workforce we will need for the future.

My remarks focus on:

- the role higher education can play in raising your constituents' standard of living and in easing the strain on Connecticut's state budget;
- the need for greater efficiency and more cost-effective approaches for ensuring today's college students – most of whom are not from the traditional 18- to 24-year-old cohort – graduate with meaningful credentials, and;
- some potential approaches for funding higher education during this recession.

Sharp declines in consumer purchasing and business investment, coupled with rising unemployment, are hammering state budgets. Connecticut's is no exception.

1. Higher education budget cuts have become regular events. At Lumina Foundation, we are deeply concerned about this pattern. Cuts in financial aid, admissions and course offerings will delay our recovery and leave the nation poorly positioned when business picks up and skilled workers are in greater demand.
2. The announced budget also could disproportionately affect students who are least able to afford college if colleges and universities are forced to push the already-stretched tuition envelope.
3. My home state of Connecticut is in better shape than most. You have an estimated budget gap this year of \$900 million, which is certainly significant, but many states are facing enormous structural deficits that will require draconian measures.
4. This relatively advantageous position could give you room to respond more thoughtfully to what's transpiring in the economy and in the workforce.
5. Connecticut has long been one of the nation's most prosperous states. Personal income levels have consistently risen above the national median since the mid-1970s.
6. However, the makeup of the state's population is changing. As you know, a growing Latino population (11.2 percent) and an economically struggling African American population will create educational challenges that affect everyone. Connecticut has one of the country's best-educated populations, but if statewide trends in college completion and national trends in migration continue, this will not be true in the future. ("Adding It Up," National Center for Higher Education Management Systems/Jobs for the Future, *Making Opportunity Affordable*)
7. As of 2005, 52 percent of whites in Connecticut had earned at least an associate's degree, a figure well above the 39 percent national average for all Americans. In contrast, just 23 percent of African Americans and 20 percent of Latinos have

earned college degrees. (NCHEMS/JFF) This state and the nation will pay an economic price if we fail to address the needs of these students, who in the past have been poorly served by traditional institutions. The number of occupations that require postsecondary education in this global, knowledge-based economy has been steadily increasing, and we can no longer afford to declare that large numbers of students are “not college material.”

8. Without a continued commitment to investing in education beyond high school, Connecticut will fall well short of the college-educated population it needs to fill high-paying jobs and to compete with the best-performing industrialized countries.

Your fiscal challenges offer opportunities to rethink strategies and approaches for higher education. I believe you should focus on investing in human capital development and should not see these issues as primarily reflecting higher education institutions’ priorities.

1. When the Cleveland Federal Reserve set out several years ago to analyze why residents of some states earn more than residents of other states, and why these patterns had stubbornly persisted for three-quarters of a century, the Fed’s researchers determined that factors such as innovation and a skilled labor force were the primary drivers of economic growth.
2. The Fed used educational attainment as a proxy for human capital. With more human capital (or higher educational attainment), the economy becomes more productive, in part because human capital by itself promotes growth and also because the amount of human capital heavily influences rates of technological innovation.
3. The Fed’s study, published in 2005, concluded that since the 1930s the pursuit of policies that increase the knowledge base of a region has been pivotal to income growth. As we know, consumer spending is the primary driver of our nation’s Gross Domestic Product and, in turn, consumer spending influences business investment, another significant part of GDP.

4. International studies also have shown a strong relationship between citizens' education levels and income growth. The strongest economies have typically been those that have invested in creating a better educated population.
5. When Ben Bernanke, the Federal Reserve chairman, is asked to name the best type of public investment, he responds, without hesitation: "Education." Wise investment in education and training can expand economic and social opportunity. The chairman notes the well documented high returns to individuals and society in terms of civic and social involvement, wiser personal financial decision making and improved health and happiness.
6. Such benefits are among reasons the federal stimulus package, when it finally emerges, could include \$39 billion for K-12 and higher education funding (House and Senate versions) and billions more (\$4.5 billion in the House version for the Workforce Investment Act and Employment Services) in additional money for workforce training of dislocated workers, youths and adults. The House package, which is more generous than the Senate version, also would increase the maximum Pell Grant, the leading form of federal grant aid for low-income students, by \$500.
7. If this recession is like every recession since the early 1980s, many of those who have been laid off won't return to the jobs they held any time soon, if at all. Most of the jobs that disappeared in 2008 went away in the fourth quarter, so interest in pursuing higher education is significantly greater today than it was just six months ago. In the fall, Connecticut reported record enrollment in its public colleges of nearly 185,000 students, a 3.2 percent increase over fall 2007 and the largest percentage increase in two decades. This only serves to underscore that as high-paying factory jobs disappear, a college education is the only widely available ticket left to the middle class. It also shows the importance your constituents place on higher education.
8. While Lumina emphasizes the urgent need to focus on expanding and improving undergraduate education, we also recognize the need for world-class research. An analysis in 2006 by the Chicago Federal Reserve determined that local economies perform best when firms are able to respond to changing conditions by innovating around process or product design. Universities can play a significant

role in this area by understanding what's needed and 1) turning out highly trained graduates and, 2) translating research into commercial innovation. (However, not every institution is doing world-class research, and you should guard against "mission creep" as institutions seek to undertake more research in pursuit of prestige and funding.)

9. Because of the important role higher education plays in Connecticut's economy, this is not the time to slash higher education spending or disinvest in an area that can, in the longer run, contribute solutions to challenges the state faces around paying for health care of low-income and disabled residents and addressing vital public safety needs. Connecticut residents who hold good jobs don't require as much state assistance and are better able to support public services.

Higher education must become more efficient and cost-effective both inside and outside of the classroom.

1. Though we at Lumina acknowledge the essential role of higher education institutions, we also believe these institutions, with your help, need to change the way they do business if we are to meet the needs of American society. Recent research has shown that spending on instruction is declining even as tuition is rising faster than family incomes. (Delta Project on Postsecondary Costs, College Board) The country's need to move beyond incremental policy approaches to promoting degree attainment is urgent, and new models of cost-effectively delivering postsecondary education should be explored.
2. There's simply not enough money available in state budgets or the American economy to scale up higher education with its current cost structure to meet Connecticut's needs or the nation's. Setting aside university research, we spend twice the amount of the average developed country per student on higher education. The silver lining in that comparison is there's a great deal of room for improvement as we reexamine funding priorities.
3. One set of institutions, though overburdened, has been doing more with less. In the United States today, community colleges educate nearly half of all undergraduates. Many states have found community colleges, which accept all

comers, are a less costly way of creating educational opportunity while meeting labor market demand for workers with education beyond high school. Not everyone needs a bachelor's degree to succeed; and, for those who want to go on, two-year colleges can get students off to a convenient, affordable start. In addition to lower tuition, these institutions offer more flexible course schedules that appeal to working adults and often provide remedial course offerings to students who are not ready for college-level math or English courses.

4. Many of these institutions are struggling to graduate more students, and they need your support and encouragement to increase completion rates. One study has found graduates of two-year programs earn 15 percent to 27 percent more than high school graduates. The Connecticut Department of Higher Education reports that community college graduates who find work in health care earn more than \$40,000 in their first year on the job. Even students who attend community colleges without earning a degree can earn 9 percent to 13 percent more than high school graduates who have not pursued higher education.
5. Some four-year institutions have responded by eliminating duplicative or undersubscribed programs, reengineering large-lecture courses, capping the number of credits needed to graduate, requiring students to take courses off campus to increase capacity, increasing teaching loads, signing bulk-purchasing contracts for health care and energy and offering new distance-education programs. These are all worthy ideas. We believe that through these and related efforts higher education can become more productive, as other industries and sectors have, and that greater productivity can be accomplished without sacrificing the quality and learning that a two- or four-year degree should represent.

Here's what legislators can do.

1. One of Lumina's partners, the National Center for Public Policy and Higher Education, issued a set of recommendations in 2004 for responding to fiscal crises that are as valid today as they were then. In closing, I'll offer a summary of those suggestions and a few of my own.

2. First, if you have to cut or hold the line on higher education spending, look to where the state is spending money efficiently and cost-effectively to generate the numbers of graduates Connecticut's economy will demand. Think in terms of human capital development and not simply in terms of what's best for individual institutions. You must do all you can to ensure qualified students have access to college and to make sure that college remains within financial reach of those who need it to advance themselves personally and professionally.
3. If possible, work with your public colleges and universities to hold the line on tuition at community colleges and at four-year institutions serving the greatest numbers of minorities and students from low-income families. Tuition increases at public research institutions are more acceptable, to the extent need-based financial aid awards keep pace.
4. Increase or maintain funding for need-based financial aid, even if this means reallocating money from institutions.
5. Don't treat colleges equally. If you can only give higher education modest funding increases, it's wiser to invest in enrollment growth than across-the-board inflationary increases. If you determine you absolutely have to reduce higher education funding, don't err by cutting higher education disproportionately. Deep cuts are an open invitation to raising tuition and reducing college access at a time the state can least afford to diminish its human capital investment.
6. Consider tying tuition increases to family income; in this way, institutional funding is better related to the level of economic prosperity. When times are bad, tuition is kept in check. When times are good, people can afford to pay more.
7. Some states believe public finance is a powerful tool for changing behavior. States such as Tennessee have for years rewarded institutions for graduating students, rather than simply paying for enrollment growth. Lumina is working with seven states through its *Making Opportunity Affordable* initiative on performance-finance systems that create incentives for institutions to ensure students complete their courses and their degrees.

8. Finally, as policymakers, you need to ensure that institutions that succeed in reinventing themselves or changing how they do business also reinvest the savings in undergraduate education in ways that help produce more college graduates.

Thank you again for inviting me before you to speak. Difficult choices lie ahead, but I am confident you will make good decisions if you view your choices through the lens of how you can best develop the workforce Connecticut will need five, 10, 15 and 20 years from now. This workforce won't look the same as today's workforce. You will need to invest more in educating underprepared students than you do now. But invest you must. The alternative is a Connecticut far less prosperous, and far less prepared to deal with the rapidly changing world in which we live.

I would be pleased to take your questions.